No. 83-196

IN THE

Supreme Court of the United States

OCTOBER TERM, 1983

WILLIAM D. RUCKELSHAUS, ADMINISTRATOR
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY,
Appellant,

v.

MONSANTO COMPANY,
Appellee.

On Appeal From The United States District Court For The Eastern District Of Missouri

BRIEF, *AMICUS CURIAE*, FOR THE AMERICAN PATENT LAW ASSOCIATION, IN SUPPORT OF THE APPELLEE.

American Patent Law Association, Inc.
2001 Jefferson Davis Highway
Arlington, Virginia 22202
Bernarr R. Pravel, *President*
By
Donald S. Chisum
1001 Bank of California Center
Seattle, Washington 98164
Its Attorney

PRESS OF BYRON S. ADAMS PRINTING, INC., WASHINGTON, D.C. (202) 347-8203

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Table of Authorities Continued

IN THE

Supreme Court of the United States

OCTOBER TERM, 1983

No. 83-196

WILLIAM D. RUCKELSHAUS, ADMINISTRATOR
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY,
Appellant,

v.

MONSANTO COMPANY,
Appellee.

On Appeal From The United States District Court For The Eastern District Of Missouri

---

BRIEF, *AMICUS CURIAE*, FOR THE AMERICAN PATENT LAW ASSOCIATION, IN SUPPORT OF THE APPELLEE.

AUTHORITY TO FILE

This brief amicus curiae is submitted by the American Patent Law Association Inc. under Rule 42(2) of this Court. Letters of consent from appellant and appellee are on file with the Clerk of the Court.

INTEREST OF THE AMERICAN PATENT LAW ASSOCIATION

The American Patent Law Association, Inc. (APLA) is a national society of more than 4600 members of the bars of many States interested in patent, trademark, copy-

right, trade secret and other laws protecting intellectual property rights. The APLA membership includes attorneys in private practice and those employed by corporations, universities and government.

The APLA has no views on the private interests of the parties hereto but is deeply concerned about the issues of public importance here involved.

This case raises important issues concerning the status of trade secrets and confidential technical information as property.

This brief is filed in support of the position urged by appellee Monsanto and adopted by the court below that confidential research data accumulated at great expense by a private person constitutes a property right within the meaning of the Fifth Amendment to the United States Constitution.

I.

Trade secrets in technical information have long enjoyed status in the law as a species of intellectual property. Both state and federal law recognize and protect rights in such property. Today, it is generally recognized that this country needs to devote more resources to technological innovation and development in order to maintain our basic economic, social, and political values. See, e.g., the Stevenson-Wydler Technology Innovation Act of 1980, 15 U.S.C. 3701 (1982). Confirmation by this Court of the status of trade secrets as property will inspire confidence in those contemplating investment in the risk-laden process of research and development. A contrary ruling will send a message of uncertainty. It will exacerbate fears that the fruits of technical research may be snatched by shifting government policy on unconsented use and disclosure of submitted information that is

unrestrained by substantive constitutional safeguards. Recognition of property rights in technical information submitted to government agencies will not hamstring the public interest or the regulatory process any more than does the recognition of private property rights in tangibles, such as chattels and land. Such recognition will neither unreasonably restrict competition nor inappropriately extend patent rights which may exist in particular pesticide compounds and processes.

II.

This Court has never adopted an inclusive or exclusive definition of "property" for purposes of either the takings clause of the Fifth Amendment or the due process clauses of the Fifth and Fourteenth Amendments. This Court has variously characterized property rights as "those economic advantages . . . which have the law back of them," *United States* v. *Willow River Power Co.*, 324 U.S. 499, 502 (1945); as "interests . . . sufficiently bound up with the reasonable expectations of the claimant," *Penn Central Transp. Co.* v. *New York City*, 438 U.S. 104, 125 (1978); and as "expectancies" that are "sufficiently important," *Kaiser Aetna* v. *United States*, 444 U.S. 164, 179 (1979). Property "may take many forms," *Board of Regents* v. *Roth*, 408 U.S. 564, 576 (1972), and includes intangible property, such as contracts, *Omnia Commercial Co.* v. *United States*, 261 U.S. 502, 508 (1923). While property includes a bundle of rights, such as the right to use and the right to convey, a "fundamental element" of property is the right to exclude others from enjoying the property without the owner's consent. *Kaiser Aetna* v. *United States*, *supra* 444 U.S. at 180.

The constitution itself does not create property rights. Such rights arise from "existing rules or understandings that stem from an independent source such as state law."

Board of Regents v. *Roth*, *supra* 408 U.S. at 577. Thus, at least initially, state law governs the property status of a confidential compilation of technical information.

Well-established state law provides a variety of remedies for unconsented use or disclosure of trade secrets. The definition of a trade secret most commonly adopted by state courts is that in Section 757 of the Restatement of Torts. See, e.g., *Ultra-Life Laboratories, Inc.* v. *L. W. Eames*, 240 Mo. App. 851, 221 S.W. 2d 224, 232 (1949). Under the Restatement, a trade secret consists of "any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." Section 1(4) of the Uniform Trade Secrets Act provides a similar definition. The subject must be held in secret, though disclosure in confidence to another does not eliminate the element of secrecy. The primary protection granted to the holder of a trade secret is the right to exclude others who come into possession of the subject through improper means from using or disclosing the subject. The protection has even been held to extend to means of discovery that are not inherently illegal, tortious, deceptive, or in breach of contract. See, e.g., *E. I. du Pont de Nemours & Co.* v. *Christopher*, 431 F.2d 1012 (5th Cir. 1970) cert. denied 400 U.S. 1024 (1971) (aerial reconnaisance). However, trade secret protection does not extend to discovery of the subject "by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering." *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 476 (1974).

Commentators find it useful to distinguish two types of trade secrets. E.g., 2 R. CALLMANN, *The Law of Unfair Competition, Trademarks and Monopolies* § 52 (3d ed. 1968); Note, *Constitutional Limitations on Govern-*

ment Disclosure of Private Trade Secret Information, 56 Indiana L.J. 347, 355 (1981). On the one hand are "hard core" trade secrets, "commercially valuable, secret information relating directly to the productive process that can be said to be the end product of innovation." This is technical information, pursued for its own sake and often of lasting value to human-kind. The testing data at issue in this case falls into this category. On the other hand are internal business facts. This is information on employees, costs, prices, profits, customers, etc., generated by a firm as an incident to its business. Both types of trade secrets may give a firm competitive advantages, and both may be protected under state law. However, the case for property status is clearly strongest as to "hard-core" trade secrets. See Connelly, *Secrets and Smokescreens: A Legal and Economic Analysis of Government Disclosures of Business Data*, 1981 Wis. L. Rev. 207, 240-245. Such secrets have independent value; they can be and regularly are licensed or sold for substantial consideration.

The existence of expectations of protection based on state law is more important for constitutional purposes than the labelling as property. However, in most instances, state courts do actually characterize trade secrets as "property." This is true as to the law of Missouri, the state of the principal place of business of the appellee Monsanto. *Harrington* v. *National Outdoor Advertising Co.*, 355 Mo. 524, 196 S.W.2d 786, 791 (1946); *Godefroy Mfg. Co.* v. *Lady Lennox Co.*, 134 S.W.2d 140, 141 (Mo. App. 1939). Commentators are virtually unanimous in conferring a property status on trade secrets, particularly those which are of the "hard-core" variety. E.g., R. MILGRIM, *Trade Secrets* § 1.01. Trade secrets are treated as property within the meaning of various state doctrines and statutes. See R. CALLMAN, *supra*, § 51.1

n. 25 ("this property in a trade secret is, like other property, assignable, taxable, capable of being a *res* of a trust and of passing to a trustee in bankruptcy"). At least one state court has held that trade secrets in a confidential compilation of technical information constitute property within the meaning of its state constitution. *Mountain States Tel. & Tel. Co.* v. *Dep't Pub. Serv. Reg.*, 634 P.2d 181 (Mont. 1981). Thus, trade secrecy is more than a potential cause of action under state tort law. Compare *Paul* v. *Davis*, 424 U.S. 693, 712 (1976).

Virtually all judicial statements denying property status to trade secrets trace to a single source—Justice Holmes' opinion in *E. I. du Pont de Nemours Powder Co.* v. *Masland*, 244 U.S. 100 (1917). In *Masland*, an employer sued to enjoin a former employee from improperly using a secret process. The employee appealed from a preliminary injunction restricting disclosure by the employee of the process to his own expert witnesses. The Court affirmed in a short opinion. Appellant's counsel argued that the case posed a conflict between a right of property and a right to make a full defense and that to grant such a preliminary injunction prejudged the merits and was unfair as to a defendant who wished to prove that there was no true trade secret. Justice Holmes responded:

> The word 'property' as applied to trademarks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied, but the confidence cannot be. Therefore the starting point for the

> present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs. 244 U.S. at 102.

Justice Holmes did not in the *Masland* passage deny the property label to trade secrets. He simply asserted that preliminary relief would be in order given the admitted existence of a prior confidential relationship. The passage, read in context, only emphasizes that the defendant could and was denying the existence of a trade secret (hence the property) but could not deny the existence of the confidence. Further, the passage emphasizes that use of the property label does not aid the analysis of the particular legal issue before the Court, which was the standard case of the former employee competing with his former employer. Commentators agree that it is improper to rely on the *Masland* statement as a general pronouncement of the non-property status of trade secrets. Connelly, *supra* at 242 n. 166; CALLMAN, *supra* § 51.1. In other cases, Justice Holmes had no compunction in characterizing as property confidential compilations of information that state law protected as a trade secret. *Chicago Bd. of Trade* v. *Christie Grain and Stock Co.*, 198 U.S. 236, 250-251 (1905). And, of course, this Court's characterization of common law trade secret rights is not definitive as to state courts and state law. *Erie R.R. Co.* v. *Tompkins*, 304 U.S. 64 (1938).

III.

Federal law has traditionally been as solicitous of interests in trade secrets as has state law. This solicitude further contributes to the expectations of property protection created by state law.

Various statutes and regulations recognize the importance of trade secrets. Two are particularly worthy of

mention. The Trade Secrets Act makes it a crime for an officer or employee of the United States to disclose "to any extent not authorized by law" information concerning, inter alia, trade secrets and confidential statistical data. 18 U.S.C. § 1905. This Court gave a liberal interpretation to this statute in *Chrysler Corp.* v. *Brown*, 441 U.S. 281 (1979), reasoning that it applied to official agency action as well as to frolics by individual government employees. While the Court declined to infer a private cause of action for its enforcement, it did refuse to recognize any broad inherent power of federal administrative agencies to use interpretative regulations to "authorize by law" disclosure of trade secrets and confidential data.

The Freedom of Information Act expressly exempts from mandatory disclosure "trade secrets and commercial or financial information obtained from a person and privileged or confidential." 5 U.S.C. § 552(b). While this is an exception to mandatory disclosure rather than an injunction against disclosure, *Chrysler Corp.* v. *Brown*, *supra*, it nevertheless dovetails with the Trade Secrets Act to further trade secret owner's expectations.

The decisions of this Court also recognize the importance of trade secrets. Foremost is *Kewanee Oil Co.* v. *Bicron Corp.*, *supra*. In *Kewanee*, this Court held that state trade secret protection was not preempted by federal patent policy, even as to subject matter potentially eligible for a patent. This Court emphasized that patent law and trade secret law worked hand-in-hand in creating incentives to innovation. Significantly, this Court referred at least twice to trade secret protection as a type of "intellectual property."

IV.

CONCLUSION

For the foregoing reasons it is submitted that trade secrets and confidential technical information are "property" within the meaning of the Fifth Amendment.

Respectfully submitted,

BERNARR R. PRAVEL, *President*
American Patent Law Association, Inc.
2001 Jefferson Davis Highway
Arlington, Virginia 22202

By

Donald S. Chisum
1001 Bank of California Center
Seattle, Washington 98164

Its Attorney